

EDUCATION AND TRAINING

Policies

The co-operative principle most widely ignored in Victoria concerns the need to educate co-operative members, their staff and the public in the principles and practice of co-operation.

In the consultation with the co-operative movement undertaken by MACC, significant emphasis was placed on the importance of education and training for the success of co-operatives. All MACC working parties recognised that a greater level of education and training than was currently in operation is necessary.

The Victorian Credit Co-operative Association provides education and training for the staff and directors of credit co-operatives. The Co-operative Federation of Victoria conducts training seminars for directors or potential directors of co-operatives. The majority of attenders are from the producer/marketing and trading co-operatives.

In recent years there have been limited moves to provide education and training for the emerging worker, food and housing co-operatives.

The then Department of Employment and Industrial Affairs has funded both the Preston College of TAFE and the Ballarat College of Advanced Education to provide training courses and business counselling services for worker co-operatives and their members. Attendance at such courses has become a prerequisite for funding support.

DEIA also produced a range of reports, booklets, pamphlets, case studies and videos with a particular focus on worker co-operatives, and has co-sponsored seminars and public forums.

The Holmesglen College of TAFE conducts a co-operative education and training course, under the auspices of a Participation and Equity Program, aimed at unemployed persons from 15 to 24 years. The course involves the participants establishing and operating a simulated worker co-operative.

The Victorian Food Study Group, also supported by DEIA, developed a pilot study program to educate people interested in operating food co-operatives about co-operative principles and in business skills. The participants were persons on low incomes, the unemployed and ethnic groups.

After workshops with rental housing co-operatives, the Ministry of Housing produced a budgeting and bookkeeping manual "Its Everyone's Business". Information booklets on the rental housing co-operative program have been widely distributed by the Ministry.

Rental housing co-operatives have themselves played a part in the provision of education. Most have attended maintenance courses at local TAFE's. The community-based Rental Housing Co-operative Advice Service (CHAS) has developed a booklet "What is Co-operative Housing", produced a video, held a national conference and provides advice and counselling to rental housing co-operatives.

With the development of the common equity rental co-operative program, the CERC Sub-Committee has employed a full-time education worker and is intending to develop education courses under the auspice of a federation of leasing and common equity rental co-operatives.

Despite these welcome, and in some cases quite innovative developments, MACC came to the conclusion early in its deliberations that the level and organisation of co-operative education and training was inadequate and required review.

In August 1984, MACC commissioned Brian Greer and Professor Geoffrey Meredith to prepare a report on the development of co-operative education and training in Victoria and to identify new directions. In preparing the report, Greer and Meredith surveyed current members of co-operatives taking advantage of existing education and training courses and sought the views of the course providers.

Their report, "Democracy Through Education" concluded that: "Co-operative education and training in Victoria 1984 is minimal and has had little impact on the movement. Current provision covers only a fraction of existing or potential co-operative target audiences identified." (P. 60).

It also noted the general unavailability of suitable trainers, courses and programs and the lack of co-operative education and training bodies, as well as insufficient use of available institutions.

Most significantly, the report drew attention to the lack of a general structure in which co-operative education and training could develop, and the lack of co-operative member participation in any of the training programs that are provided.

"Only one in four members of co-operatives have taken part in education and training programs of any kind in Victoria during 1984." (P.33)

As the report highlights, such low levels of participation are disturbing given the central role co-operators worldwide place on education in ensuring the continued growth and development of the co-operative sector.

The major recommendations of the report have been endorsed by MACC. It agrees that the role and importance of co-operative education and training in the development of a successful co-operative movement should be fully recognised and given high priority.

The widespread ignorance about co-operatives in the community should be broken down through the teaching of the philosophy and practice of co-operation, and the establishment of student co-operatives in schools and universities, as is the case in many overseas countries.

MACC endorses the adoption of a wide scope for co-operative education and training. It should cover the whole range of skills that are necessary for co-operatives to operate as viable enterprises while ensuring that the content and presentation of education and training are underpinned with co-operative ideology.

MACC agrees that different types of co-operatives will require co-operative education and training targetted to their individual needs. The requirements could in turn vary between co-operative types, or within any one type of co-operative, according to the co-operative's size and stage of development. As the report points out, the manager or potential manager of a large producer/marketing co-operative will have different education needs to those required to manage a small credit co-operative.

This view was supported by officers of the Plunkett Foundation for Co-operative Studies in Great Britain who informed the report:

"So while there are factors in education and training which are common to all sectors (e.g. training members to play a part in decision making processes, to improve the effectiveness of co-operatives as democratically controlled organisations, specialised training for elected office holders, and training all those involved in the co-operatives in the special features and philosophy of co-operation) because of this specialised nature of co-operatives and the different level of training required, it is unlikely that any courses except general management and leadership, and co-operative principles and philosophy, can be provided in common". (P. 22).

The report recommended that education and training should be available at a local and regional level. This will require use of existing educational institutions. The structure and program adopted must also be capable of catering for those areas where it is appropriate that education and training be provided for common audiences.

Finally, the report recommends establishing a body to facilitate and co-ordinate co-operative education and training on a State-wide basis. The recommendations of the "Democracy Through Education" report relevant to the deliberations of MACC are set out in Appendix F.

RECOMMENDATION 40

The role and importance of co-operative education and training in the development of a successful co-operative movement should be fully recognised and given high priority by the Government.

The Government should encourage the teaching in educational institutions of the philosophy and practice of co-operation.

RECOMMENDATION 41

MACC endorses the following recommendations of the report commissioned by it, "Democracy Through Education":

- (a) A wide scope for co-operative education and training should be adopted, while ensuring that the content and presentation are underpinned with co-operative ideology;
 - (b) Different types of co-operatives should receive co-operative education and training targetted to their individual needs;
 - (c) Education and training should be available at a local and regional level;
 - (d) A body should be established to facilitate and co-ordinate co-operative education and training on a State-wide basis.
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Strategies

As identified in the "Democracy Through Education" report made to MACC, the need for specific tailoring of co-operative education and training reinforces MACC's view that sector associations should be the basic infrastructure for co-operative development.

Each sector will need to establish an education committee which could be a working group reporting to a sector association. The association based committees will develop and negotiate the delivery of local and sector specific training programs.

In the development of courses, workshops and educational material, the committees should make use of the skills and experience of existing adult educators. This could mean not only combining forces with such institutions as Preston TAFE, but also involving adult educators in counselling or workshops outside an institution, in a co-operative's home territory, for instance. In Canada, adult educators are frequently consulted on the best techniques for getting a message across.

The special needs of undeveloped co-operative sectors should be recognised and promoted. Worker co-operatives are such an example and the Trade Union Training Authority could be approached to deliver short courses to co-operators and to provide industry specific training in industrial democracy.

The urgency for trainers should be recognised, and funding provided for the immediate recruitment of appropriate personnel, including existing co-operators, to undertake short trainer-training courses. This strategy should be supported by the use of overseas specialists.

The education committees in Victoria should liaise with and promote exchanges of ideas, expertise and technology with their interstate and overseas counterparts to ensure a constant flow of co-operative ideas and practices.

RECOMMENDATION 42

Each co-operative sector should establish an education and training committee to facilitate and co-ordinate the research and development of courses and programs, and the Government should provide financial support for these committees in the early stages.

To facilitate and co-ordinate education and training activity in Victoria, there should be established a Co-operative Education and Training Authority which would draw its membership from the Victorian Co-operatives Council, future federations or a reformed Co-operative Federation of Victoria and representation from each co-operative sector education and training committee. The authority should also include non-voting membership from relevant education institutions and the Victorian Education Department. Its role is specified in greater detail in the "Democracy Through Education" report. In broad terms it should also provide training and education in the common areas of co-operative education and training, encourage the introduction of co-operative subjects, units and courses in primary and secondary schools and tertiary institutions, and provide training for trainers.

The Authority would also work in conjunction with the education committees in directing co-operators to existing courses, acting as provider of last resort and providing specialist advice.

The education committees and CETA should be encouraged to look at utilising existing funding programs, such as the Participation and Equity Program and the Industrial Democracy Program, and other such programs, whenever possible.

RECOMMENDATION 43

- (a) The Victorian Co-operatives Council should establish a Co-operative Education and Training Authority (CETA) to co-ordinate co-operative education and training. Membership should be drawn from the VCC, sector education committees and

- include non-voting membership from relevant education institutions and the Victorian Education Department.
- (b) Establishment and interim funding of CETA should be provided by the Government.
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As noted earlier, government support will be required to develop viable sector associations, and further funding will be required to develop the education and training proposals.

MACC considers, however, that in future co-operatives should be required to contribute by paying a levy towards education and training. Introduction of the levy would need to be delayed until a satisfactory formula could be established. The VCC would have powers to make such a levy, with Ministerial approval, from time to time.

In the "Democracy Through Education" report, the estimated annual cost of the operation of CETA is \$100,000. Further estimated funds of \$45,000 each will be required for the education committees and also funds for curriculum development.

RECOMMENDATION 44

- (a) Funds should be provided by the Government to establish education committees and ensure curriculum development.
- (b) All co-operatives should pay a levy which contributes towards the provision of education and training.
- (c) The Victorian Co-operatives Council should set the levy, with Ministerial approval, from time to time.
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FINANCE

Policies

Probably the most contentious issue in co-operative development is finance and the role of capital. The issue highlights the differences between co-operatives and private sector enterprises. Resolving the dilemma of providing adequate financing for co-operatives while maintaining a commitment to the co-operative principles is not easy—and as this report has stated so many times, it is necessary to respect the right of the different sectors of the co-operative movement to have different approaches to a solution.

Of immediate concern is an examination of what capital formation models should be pursued by co-operatives. Co-operatives are notoriously under capitalised.

The traditional strategy for capital formation tends to be based on the initial level of equity required from members or shareholders. Other policies tend to come as a consequence to that decision.

The extent of ownership in a business is normally regarded by financiers as a measure of the commitment of the owners. It is quite normal that a small business owner applying for a loan from a traditional financial institution will be required to have a personal equity of between 40-70%.

Small businesses often reduce their personal financial requirements and overheads by overworking themselves and their immediate family. Owners frequently work excessive hours, drawing a minimum income and choosing to retain funds within the business. They look towards their rewards in the long-term from capital gains and retained income.

Equating equity to commitment, however, assumes that money is a universal and dominant incentive for the establishment and development of co-operatives. There are different bases for motivation and, indeed, the rationale for co-operation is service rather than profit.

So as to maximise access and not disadvantage low income members, many co-operatives have low, nominal individual shareholdings.

While not prescribing in legislation that equity levels should increase in co-operatives, MACC believes that many co-operatives could improve their capital base by raising equity levels.

As the Financial Institutions Review report highlights, however, the central problem for co-operatives is not one of high or low equity, but the ease with which capital can be withdrawn from a co-operative, and the consequent lack of any firm capital base.

Under co-operative philosophy, outside investors are prohibited from holding shares within a co-operative. The aim is to prevent control of the

co-operative falling into the hands of those who are not directly involved in its operations. In France, Italy and Britain, shares are repaid at par when members leave.

Members, then, when they leave a co-operative are paid back their shareholding and cease as members to take part in decision-making. MACC supports this principle but recognises, however, that co-operatives require a permanent base of capital in the interests of certainty and providing a firm financial footing to a co-operative's operations.

The need for a permanent base of capital is particularly relevant to credit co-operatives and co-operatives with little asset backing, such as worker co-operatives. In U.S. plywood co-operatives, for instance, a worker who wishes to realise his/her share must on leaving find another worker satisfactory to the remaining members.

Another method of increasing the equity base is through the increasing of reserves. This is particularly relevant to worker co-operatives, as in most Western industrial co-operatives the bulk of finance is provided by collectively owned reserves built up by allocations from surplus. Sometimes this is mandatory, as in France where a minimum of 15% must be reinvested.

Apart from Mondragon with its emphasis on high, individual capital stakes, research has shown that most industrial co-operatives place a strong dependence on collective rather than individual ownership. In British printing co-operatives, for instance, reserves per worker are 16 times as great as individual ownership, compared with a ratio of 1 to 5 in Mondragon.

RECOMMENDATION 45

The co-operative movement should be recognised as an independent movement and should be encouraged to be self-funding as far as possible by means of member equity, greater retention of capital and increasing reserves.

A continuing problem for the co-operative movement in Australia has been its inability to gain access to funds at reasonable rates of interest for purposes of both development and normal business operations. This is because traditional financial institutions when assessing loan applications, look for a high degree of owner equity, security, normal business structures and management experience and expertise. Since co-operatives frequently have either a low equity base, limited asset backing, non-commercial structures, and/or are begun by people with

limited business experience, it is not surprising that traditional financial institutions have shown little interest in the development of co-operatives.

Overseas experience indicates that the strongest co-operative movements are those which have strong, co-operative financing facilities. For example, in Mondragon, Spain, new co-operative ventures are assessed, launched and monitored by a central credit co-operative, the Caja Laboral Popular. Membership and control is in the hands of the credit co-operative's workers, individual members of co-operatives and associated co-operatives. This strong, circular inter-linking of individuals, their co-operatives and the financing facility has worked so well that since 1956 among the more than 100 industrial co-operatives created, there has been only one business failure.

Historically in Australia, credit co-operatives have tended to develop in isolation from the rest of the co-operative movement. This was due primarily to two factors:

- (a) Sole concentration on meeting the borrowing needs of its own membership because the consumer loan market was for a long time not being adequately serviced by other financial institutions;
- (b) Legislative restrictions which prevented credit co-operatives providing services to other than natural persons.

Credit co-operatives are now finding that their traditional market—the personal, consumer loan market—is being effectively serviced by a whole range of financial institutions. With the advent of deregulation of the financial system, more and more financial institutions will be directing their efforts into trying to take a share of this market. Credit co-operatives, particularly those with a community bond, need to look to the development of new markets.

Deregulation has also meant that credit co-operatives can now provide a full range of financial services. Previously some services, such as chequing facilities, were denied to the credit co-operative movement. This has changed so that many credit co-operatives are now able to provide all the necessary financial services including chequing and electronic funds transfer facilities.

With the recent passing of the Co-operation (Amendment) Act, the legislative constraints which previously existed have been removed. The amended legislation specifically provides that credit co-operatives may provide the full range of financial services to corporate bodies which are substantially co-operative in nature.

With these developments, MACC believes an opportunity now exists for the credit co-operative movement to play a more influential role in providing financial services to, and assisting with, the development of the broader co-operative sector.

As co-operatives themselves, credit co-operatives should be financiers with an understanding of the particular nature of co-operatives. They are in a better position than other financial institutions to assess the financial needs of the co-operative sector.

Essentially, there would seem to be four types of funding required by co-operatives:

- (a) Limited cash flow funding requirements (overdrafts, short term loans etc.), which would be advanced on a commercial basis;
- (b) Fully secured long term lending of a limited size;
- (c) Higher risk funding (i.e. venture capital) for development purposes, again of a limited size;
- (d) Wholesale loan facilities of a significant size usually for development purposes.

It would seem that the first two requirements could probably be met by individual credit co-operatives once their bond of membership was changed, provided that the applications for funding were commercially sound. Credit co-operatives, as with any other financial institution, will be seeking security that will ensure the safety of the loan.

Credit co-operatives could also play a role where limited amounts of funding may be required for development purposes by co-operatives but which would, from a commercial viewpoint, be adjudged as venture capital. If the Government were prepared to guarantee such loans, credit co-operatives could probably play an important role in this regard.

The Worker Co-operative Working Party hopes that credit co-operatives will assist a Worker Co-operative Development Agency in putting together financial packages which would ensure adequate capitalisation for each project.

In a financial package, the necessary funds are provided through a combination of resources. Both overseas and in NSW, the notion of putting together financial packages has been instrumental in the funding of worker co-operatives. Packages could include, for instance, a combination of any of the following: government grants and/or loans, Small Business Development Corporation loans, member equity, government guarantees and loans from credit co-operatives.

RECOMMENDATION 46

The Government and Victorian Co-operatives Council should encourage the credit co-operative movement to play a significant role in providing financial services to, and assisting with, the development of the broader co-operative movement.

Large, wholesale loans could not be met by the credit co-operative movement in the short term. Currently, the credit co-operative movement is developing a national financial facility called 'Credit Union Financial Services of Australia Limited' (CUFSAL) which is designed primarily to strengthen the liquidity support system of credit co-operatives. It is extremely unlikely that this vehicle in its own right would be involved in providing wholesale financing to the co-operative sector, although it could provide an important interface into the financial market place and may be able to undertake the role of a finance broker in the short term.

In the long term, it would seem that it would be appropriate for a national financial facility to be established for the whole of the co-operative movement which would have an ownership spanning all types of co-operatives and which would be set up specifically to meet the wholesale financing requirements of the co-operative sector. Even though this would need to be an independent body, it could have close links with CUFSAL.

Overseas experience would seem to indicate that development of wholesale financing for co-operatives needs to be broadly based. In order to service the co-operative sector as a whole, the board of directors of any central financing facility for co-operatives should be as representative as possible of the various types within the co-operative sector.

Further possibilities for this national financial facility would be:

- (a) The ability to access both equity and deposit funding from overseas co-operative banks;
- (b) Government and co-operatives may be interested in investing in the financial facility and may be prepared to accept below market rates if this would enable the facility to make loans available at below market interest rates.

Another role which both the Credit Co-operatives Reserve Board and individual credit co-operatives could play could be to assist in the development of management and financial expertise for the staff of individual co-operatives. This might include the oversight of financial plans and the provision of monthly financial statements to the financing co-operative.

RECOMMENDATION 47

Further financing facilities should be established to provide the co-operative movement with appropriate venture capital and wholesale loans.

Government guarantees

The expansion of the government guarantee scheme for co-operatives could prove one of the greatest boosts to their development on a wider basis.

Since 1955, government guarantees have been available under the Co-operation Act. Some 1,822 guarantees have been issued totalling over \$40 million. Currently 663 guarantees are in operation with the total value of \$23.3 million.

Most of the guarantees have been given to community service co-operatives, of which half are sponsored by school councils, to undertake projects ranging from the construction of community centres, gyms and canteens to the purchase of computer and video equipment. The remainder are sponsored by sporting bodies and social clubs, scouting/guiding associations, pre-schools and kindergartens and other community bodies.

Four producer and two community settlement societies currently have substantial loans under government guarantee.

Over the 30 years since the scheme was introduced, bad debts have only amounted to \$93,305; that is, less than 0.25% of the total funds guaranteed. The provision of jobs and improved community facilities through the related system of co-operatives and government guarantees has proved an unqualified success.

For the Government, the guarantee system offers the opportunity to assist in providing services which benefit the community, at no cost to the Government. If the Government accepts the recommendations of this report that it should support the development of the co-operative movement as consistent with both its Economic and Social Justice strategies, then the guarantee system would provide a practical, low cost method of support. It enables many projects to be undertaken that might not otherwise be considered and uses private sector finance thereby relieving the pressure on government funds.

MACC recognises, however, that the uncontrolled provision of government guarantees to any co-operative would expose the Government to an unreasonably high level of risk.

Controls which may be required for high risk co-operatives are:

- (a) The provision of financial plans and their monitoring;
- (b) An identifiable, liquidity support pool to act as a back up where co-operatives fail to meet their commitments;
- (c) Limits on the amount of government guarantees out at any one time;
- (d) Restrictions on whether or not government guarantees provide full or partial security.

Without the protection of such conditions, it is unlikely the Government will advance more than a handful of government guarantees to high risk co-operatives.

RECOMMENDATION 48

The Treasurer should be authorised to extend the government guarantee system to cover venture capital and wholesale loans for any type of co-operative. The appropriate conditions to ensure the proper use of this facility should be determined with the assistance of the Victorian Co-operatives Council.

Strategies

Co-operatives with high memberships could significantly improve their capital base by lifting their nominal shareholding limit. MACC does not believe this would disadvantage low income people and should occur in all co-operatives which operate in the market place. Credit co-operatives share requirements should be at least expected to keep pace with inflation.

Many consumer co-operatives, for instance, require only a nominal shareholding of \$2. Most credit co-operatives have for over 20 years retained the share capital required from members at the same limit of \$10.

Worker co-operatives face an even lower equity base, as their low membership numbers mean they cannot take advantage of collective equity through having a large membership.

One way of increasing the members' capital stake would be to have a target equivalent to, say, six months salary which, so as to minimise the impact on low income workers, could be built up over a ten year period. This is the usual objective with French worker co-operatives. The British, with the lowest member capital requirements in the Western world, still expect a member shareholding in worker co-operatives of between \$100 and \$200.

It should be a matter, however, for each co-operative sector to determine minimum equity levels in its rules.

RECOMMENDATION 49

The minimum and maximum shareholding of a member in a co-operative should be determined in the rules of the individual co-operative.

Reserve levels

MACC considers that the legislation can best protect the perpetuity of co-operatives through reserve fund provisions ensuring that no distribution of surplus to members should be allowed until an agreed minimum level of reserves has been accrued. Criteria should be specified for determining this level.

The practice of surplus distribution by co-operatives is not currently regulated, other than a provision in the Co-operation Act that credit co-operative reserves should be increased to 2.5% of liabilities at a rate of .5 per cent per year.

As there is a pressing need to improve the capital funds available to co-operatives, MACC considers that an increased proportion of any surplus should be allocated to the reserves or contingency fund.

Reserve levels should be worked out on a sector by sector basis, subject to the approval of the VCC.

RECOMMENDATION 50

There should be no cash distribution of surplus to members until an agreed minimum level of reserves has been accrued, as specified in a co-operative's rules, and approved by the Victorian Co-operatives Council.

Credit co-operatives

To date, few credit co-operatives have shown interest in becoming the financing arm of the co-operative movement.

Quite rightly, credit co-operatives have set their first responsibility as to the depositing members within their bond. Infusion of deposit funds from co-operatives should help change attitudes within the credit co-operative sector. Many co-operatives bank with financial institutions other than credit co-operatives. MACC believes they should be encouraged to put the sixth principle of co-operation into practice by joining with credit co-operatives to help build a stronger, capital base for the co-operative movement with the object of developing a secondary, co-operative financial institution.

Another means of encouraging credit co-operatives would be to direct government funding for co-operatives through the credit co-operatives. This could occur in a number of ways. Where grant funding was involved, government departments could make it a condition that the grant was deposited with a credit co-operative. In the case of loans, loan schedules could be monitored by credit co-operatives.

RECOMMENDATION 51

- (a) Co-operatives should be encouraged to bank with credit co-operatives.
 - (b) Government funding of co-operatives should be directed, as much as possible, through the credit co-operative system.
 - (c) Legislative and policy restrictions which prevent community-based organisations in receipt of government funding from depositing those funds with credit co-operatives should be removed.
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In a credit co-operative, financial resources are pooled within a community-based framework or bond, with the objective of providing financial services to user members. Some of the industrial co-operatives—whose bond is related to employment—have widened the reach of their bonds so they are operating interstate.

The introduction of financial deregulation has led to a rationalisation of credit co-operatives. As size can prove a buffer against competition, some of the small, less viable credit co-operatives are looking to join forces with a partner to take advantage of economies of scale.

Further, the larger industrial and provincial credit co-operatives are seeking to expand the scope of their bonds which is perceived as a threat by the community-based credit co-operatives. It has become a matter of vigorous debate whether bonds should be strictly controlled and remain true to type or whether distinctions between types of credit co-operatives should disappear. The Registry has instituted procedures for arbitrating over proposals for bond expansion. These will need further development by the proposed Director of Co-operatives in consultation with the Credit Co-operatives Reserves Board.

MACC is concerned that the use of bonds should be retained. Overseas experience would seem to demonstrate that the breaking down of bonds results in financial co-operatives losing contact with their membership. Not only does this mean they become less co-operative in nature, but also their major strength is lost: that is, the ability to provide a personal service and response to the needs of a group of people linked by a common bond.

Financial co-operatives without bonds become no different to traditional financial institutions. Their very reason for existence disappears.

RECOMMENDATION 52

Realistic, clearly identifiable common bonds for credit co-operatives should be retained with any requests for changes being considered by the

Wholesale, financing facility

Clearly, within the short term, credit co-operatives will not have the capability to make large, wholesale loans to co-operative sectors—such as are required by common equity rental co-operatives.

As the financial consultant to the Financial Institutions Review pointed out, the collective assets of the credit co-operative movement in Australia are about a quarter of the assets of the smallest of the present nationally operating private banks.

Overseas experience would seem to indicate that development of wholesale financing for co-operatives needs to be broadly based. In order to service the co-operative sector as a whole, the board of directors of any central financing facility for co-operatives should be as representative as possible of the various types within the co-operative sector.

There would seem to be merit in the approach recommended by the Consumer Co-operative Working Party to MACC:

“That a central financing authority...be established with representatives from all co-operatives so that the full support of all co-operatives can be obtained, and the interests of any particular sector of the co-operative movement will not be disadvantaged.” (MACC Working Papers, P.27)

What would be at question in the creation of a national financing facility for the co-operative movement is the relationship with the credit co-operatives’ national financial service system (CUFSAL). The VCCA believes it is essential for credit co-operatives to develop a national capability to remain competitive in a deregulated financial environment.

Any development of wholesale loan facilities for the co-operative movement would, therefore, need to take into account the existence of CUFSAL. It is important to recognise, however, that CUFSAL and the provision of large-scale, wholesale loans are not synonymous. CUFSAL’s major objectives are to provide investment pooling and liquidity support for credit co-operatives which would seem to be directly at odds with the provision of wholesale loans.

RECOMMENDATION 53

- (a) The Victorian Co-operatives Council should as an early priority establish a working party to investigate the establishment of a wholesale financing facility for the co-operative movement.

- (b) Members of the working party should include representatives from credit co-operatives, co-operative companies, co-operative housing societies, the Co-operative Federation of Victoria, emerging co-operatives (worker, food and rental housing), and the Department of Management and Budget.
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TRADE UNIONS

In Australia, the consumer and producer co-operative sectors have dominated co-operative development and these co-operatives have been characterised by a non-workforce membership. It is not surprising, therefore, that these established sectors do not have a common interest with trade unions. In these sectors the relationship with trade unions is no different from that existing for other forms of business enterprise.

Trade unions originated as working class organisations established to defend and extend the rights of workers in the workforce. They seek to represent the interests of labour and are the industrial arm of the labour movement. The principles of unionism can be summarised as:

- *Open Membership*: Union membership is work-related and open to all workers irrespective of their politics, race, religion and sex in particular trades. The trade, then, is the common bond. While the decision to join unions in Australia is legally voluntary, unions favour compulsory membership and different unions have been able to effect a de facto compulsory membership.
- *Democratic control*: Unions are democratic organisations with the members having equal voting rights (one member, one vote). Members participate in decisions affecting the union and members appoint/elect officers accountable to them.
- *Education and training*: Unions are committed to the maintenance and development of professional and trade qualifications and skills. The ability of trade unions to achieve their objectives depends on educating their membership.
- *Wages and conditions*: Unions have fought for and established existing wages and working conditions. Wage rates are based on work value assessments and, therefore, unions are concerned to maintain and develop existing values and wages.
- *Co-operation between unions*: Workers established unions to represent their common interests against the interest of capital. It logically follows that unions have a common interest to act in combination. While unions do act together politically, industrially and organisationally, disputes between unions over jurisdiction and job demarcation have not been avoided.

Since the 19th century both the trade unions and several political parties have maintained a continuous if sporadic interest in co-operation.

While there are historical links, members and workers in co-operatives do not necessarily share the same interests. The members of a co-operative may be primarily interested in cheaper products and/or bonuses or rebates whereas the workers in the co-operative may be primarily interested in increasing their wage levels.

Currently the worker co-operative sector in Victoria is insignificant in number and size, so there seems to be little apparent reason why trade unions should be concerned with their presence. Of course, trade unions are concerned to increase unionisation levels but it is hardly a priority to increase union membership levels in a small number of co-operatives. Likewise, they have a common concern to maintain award wages and conditions, but the employment practices of a few worker co-operatives hardly constitute a threat to the industrial relations system.

It is their potential to expand, however, which suggests that developing a relationship with trade unions is worthwhile. Unions have legitimate and proper concerns about worker co-operatives and these need to be addressed rather than dismissed.

Trade unions are not convinced that worker co-operatives are really different from other forms of business enterprise. For unions, worker co-operatives could be either just a sophisticated form of employee ownership, or small groups of workers in fragile economic enterprises whose economic impact and unionisation level is not particularly significant.

Unions are properly concerned that workers in worker co-operatives are de facto self-employed and do not, therefore, have a commitment to unions and unionisation. Indeed, some worker co-operatives in the U.S.A. have taken the position that their members are self-employed.

Limited worker co-operative experience in N.S.W. and Victoria indicates that worker co-operative unionisation levels differ significantly. This difference is based on how the members of the co-operatives perceive themselves as owners and/or workers and the commitment towards unions of co-operative development agencies.

Some unions fear that if worker co-operatives are allowed to develop on an ad hoc basis, they will undermine traditional jobs, wages and working conditions.

Even with the resolution of these issues, however, there remain fundamental questions concerning workers as owners and the role of trade unions in worker-owned co-operatives. The Trans National Co-operative and Labour Resource Centre report, "Worker Co-operatives in N.S.W. and Victoria: A Policy Review", has identified a number of difficult questions:

- How will the co-operative deal with the problems of employers and managers continuing as workers in the co-operative?
- How will the co-operative deal with the problem of the 'aristocracy of labour', and what processes can ensure that both white collar and blue collar workers are equally involved?

- How will it be ensured that workers/members are able to identify what information they require and be able to assess its implications?
- What provisions will need to be made to assist workers to acquire reading, writing and articulation skills which are essential components of managerial functions?
- Should all workers be obliged to join the co-operative? If there are non-member employees, how would they relate to the democratisation process?
- What will the co-operative do about workers who are not union members?
- How will the prime movers initiating the co-operative proposal deal with suspicion from both potential co-operative members and union officials?

The answers to these questions are complex and will only be resolved in the long-term through the actual development of worker co-operatives in Victoria and continuing dialogue between worker co-operatives and trade unions.

It can happen. In Italy, the co-operative federations and unions have joined together in encouraging the development of co-operation, while encouraging each other's autonomy.

The basis of a developing relationship will depend on the capacity and willingness of worker co-operatives to co-operate with unions, maintain and expand union membership and protect and improve working conditions. The right to participate in decision-making should not provide a substitute for below market wage levels.

RECOMMENDATION 54

- (a) The Victorian Co-operatives Council should support the establishment of a working party between the Victorian Trades Hall Council and the Worker Co-operative Working Party.
 - (b) The Office of Co-operatives should discuss with the Trades Hall Council the possibility of appointing a worker co-operative liaison officer.
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TRANSITIONAL ARRANGEMENTS

A number of matters are of such an urgent nature that they require the Government's attention as soon as possible. On most of these matters, the Government is waiting on MACC's recommendations before making any decision.

Only three co-operative sectors are dealt with here : the emerging sectors of worker, food and common equity rental co-operatives. They are all at a crucial stage and government decisions are necessary before further development of these sectors can proceed. Specific requirements for these and other sectors which are not of such a pressing nature are dealt with in the following section.

Also dealt with here are the transitional arrangements which need to be put in place as soon as possible if the policies and strategies outlined in this report are to be put into effect.

Victorian Co-operatives Council

With the completion of this report, the Ministerial Advisory Committee on Co-operation has been disbanded.

MACC members regarded themselves as the forerunners to the Victorian Co-operatives Council, and are concerned that the changeover period be as short as possible. As even a superficial reading of this report would indicate, a great many of the proposals to aid future development of the co-operative movement are dependent on decisions being made by the VCC.

MACC proposes that one of the first tasks of the new Minister for Co-operatives should be to select the members of the VCC, and convene it as soon as possible. The proposed selection process for VCC representatives is outlined on pages 81-82 of this report.

RECOMMENDATION 55

There should be an urgent amendment to the Co-operation Act, 1981, to replace the Co-operative Societies Advisory Council with the proposed Victorian Co-operatives Council.

Office of Co-operatives

The suspension of the Co-operative Development Program, Department of Labour, adds urgency to the establishment of the Office of Co-operatives if continuity in the development of food and worker co-operatives is not to be lost.

There are, however, further pressing reasons. Regulatory arrangements for building societies, in particular, require attention and are currently the subject of another cabinet submission. Rather than having a series of administrative rearrangements within the Legal and Registry Division, Ministry of Housing, MACC believes it would be best to solve the regulatory problems and create an Office of Co-operatives at the same time.

As with the establishment of the Victorian Co-operatives Council, many of the proposals in this report cannot be addressed, let alone implemented, until the Office of Co-operatives comes into existence.

RECOMMENDATION 56

- (a) A Minister for Co-operatives should be immediately appointed.
 - (b) A separate, Office of Co-operatives should be established as a matter of urgency.
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Worker Co-operatives

Since 1981 there has been government support for the development of worker co-operatives in Victoria. The election of the Labor Government in 1982 enabled the consolidation of this support, and a number of important initiatives were undertaken by the Co-operative Development Program Unit within the then Department of Employment and Industrial Affairs.

- The development of a worker co-operative curriculum and courses in conjunction with Preston TAFE.
- The establishment of the monthly magazine, *The Co-operator*.
- The preparation of a series of case studies on co-operatives.
- Liaison with the co-operative movement in Italy.
- Jointly commissioning with the NSW Government, a report on worker co-operative policy.
- Commissioning of a feasibility study into a Worker Co-operative Association.
- Discussions with the Trades Hall Council on worker co-operative development.
- The development of conversion and transformation co-operatives.

This report has already recommended that the Co-operative Development Unit, Department of Labour, should be merged with the Policy and Research Branch, Registry of Co-operatives to become part of a proposed Co-operative Development Section within the Office of Co-operatives. As a matter of urgency, the four designated positions in the Co-operative Development Unit should be immediately transferred

to the General Co-operatives Branch, Registry of Co-operatives, preparatory to the establishment of the Office of Co-operatives. Such a move would ensure that the development of the worker co-operative program would continue, and enable continued development of food co-operatives and co-operatives for workers with disabilities.

RECOMMENDATION 57

The four designated positions in the Co-operative Development Unit in the Department of Labour be immediately transferred to the General Co-operatives Branch in the Registry of Co-operatives, preparatory to their inclusion within the proposed Co-operative Development Section of the Office of Co-operatives.

Both the Co-operative Development Unit and the Worker Co-operative Working Party of MACC have recommended the establishment of a Worker Co-operative Association and a Worker Co-operative Development Agency.

MACC considers that the current momentum for worker co-operative development should be maintained.

In continuing these initiatives, the Office of Co-operatives should work with MACC's Worker Co-operative Working Party.

The Worker Co-operative Development Agency should be provided with a fund to enable it to finance co-operatives either directly through seeding grants or through guaranteeing loans, and to provide grants to cover servicing costs and for wage support. It is envisaged that the Agency would be a subsidiary of the Worker Co-operative Association with participation from government.

Overseas experience demonstrates that co-operative banks are reluctant to make loans available to worker co-operatives on favourable terms because of the difficulties of correctly assessing the risks involved.

Worker co-operative development has generally been most successful where they have had their own financing arm. This is true of Mondragon in Spain; of the French worker co-operatives, whose confederation has a financing subsidiary, SOCODEN; and of Denmark, where there is the Labour Movement Co-operative Investment Fund. In the short term, MACC proposes that the establishment of the worker co-operatives sector association and the Worker Co-operative Development Agency should become the responsibility of the Office of Co-operatives. The Office would provide funding, secretarial support and government representation on the Worker Co-operative Working Party which would act as the steering committee setting up the sector association and the Agency.

MACC further proposes that the Office of Co-operatives should have regard to the strategy documents prepared by the then Minister of Employment and Training which outline the basis for establishing the Worker Co-operative Association and the Worker Co-operative Development Agency. Those strategy documents are the Cruickshank Report, the Worker Co-operative Association Feasibility Study and Worker Co-operatives: A Policy Review.

In the following recommendations, MACC is not requesting any extra government commitment or funding for worker co-operatives than has already been made. Funding could be made available through the Employment Initiatives Program, Department of Management and Budget, and should be used for individual co-operatives, a Worker Co-operative Association, The Co-operator and co-operative case studies.

RECOMMENDATION 58

- (a) The Office of Co-operatives should auspice a Worker Co-operative Development Agency to be transferred as soon as possible and practicable to the Worker Co-operative Association. The Worker Co-operative Working Party should be recognised as the steering committee for the establishment of the Worker Co-operative Association.
- (b) Funding of worker co-operatives should be maintained at its current level of \$1.4 million for 1986-87.
- (c) The development of worker co-operative education and training by Preston College of TAFE should continue in conjunction with worker co-operatives over the next 12 months at the current level of \$100,000.

Other, less urgent specific sector requirements for worker co-operatives are detailed in the next section.

Food co-operatives

Funding for food co-operatives is also waiting on recommendations from MACC.

Over the last two years, the Victorian Food Co-operative Study Group has been operating in a developmental capacity researching, documenting and making recommendations regarding 50 food co-operatives, both registered and unregistered throughout Victoria. Funding for the Study Group's research has come from the Co-operative Development Program, Department of Labour. Funding levels were \$69,000 in 1984 and \$73,000 in 1985.

Based on these figures, MACC recommends that \$80,000 be allocated to the Study Group for 1986/87, so as the following activities may be undertaken:

- (a) Provision of educational and technical support to co-operatives;
- (b) Development of a means of communication and liaison between co-operatives;
- (c) Promotion and representation of the interests of food co-operatives to government bodies, community organisations and educational institutions;
- (d) Support and work directly with groups of people in establishing a food co-operative;
- (e) Promotion of the understanding and the implementation of food co-operative principles and practice.

Funding could again be made available through the Employment Initiatives Program.

RECOMMENDATION 59

- (a) In the interests of continuity, the current level of funding in real terms should be maintained for the Victorian Food Co-operative Study Group (VFCSG). The Government should, therefore, budget \$80,000 for the VFCSG in 1986/87.
- (b) Funding of the VFCSG should be immediately transferred to the Registry of Co-operatives, Ministry of Housing, pending the establishment of the Office of Co-operatives.
- (c) The VFCSG should be commissioned by the Office of Co-operatives to develop guidelines and a budget for the funding of individual food co-operatives.

Prior to the last State election in March, 1985, the Premier released the social justice statement as part of his Government's election platform. On page 9 of the statement "Social Justice: the next four years", the Premier made this commitment:

"We will set up a co-operative warehouse and development centre. This will in effect be a 'master co-operative', serving existing and developing co-operatives. It will provide practical training in financial management, buying and marketing; and the centre's warehouse will be able to bulk-buy on behalf of all participating co-operatives, and reduce the prices that each charges its members."

Following the election DELA funded the VFCSG to carry out further research and make recommendations. The Study Group set out over a six month period to identify the education and training needs of food co-operatives, as well as their technical assistance requirements. The

recommendations of its recently released report, "Development of the Food Co-operative Sector: Appropriate Resource Provision", are that:

- (a) A development centre be established at a cost of \$122,000 in its first year of operation. The development centre would take over the role of the VFCSG, and involve three workers;
- (b) The development centre be both representative of and responsible to the food co-operative sector;
- (c) A warehouse be funded at a cost of \$287,000 over a three year period (1985 figures).

MACC believes the strategy documents prepared by the Study Group should be used as the basis for the food co-operative warehouse and development centre.

In keeping with its role for co-ordinating development of worker and food co-operatives, the Office of Co-operatives should have the responsibility for overseeing the implementation of those strategy documents. Funding for the warehouse and development centre would most properly come from social justice allocations in the State budget.

RECOMMENDATION 60

The proposed warehouse and development centre for food co-operatives should be funded from the social justice allocations in the State budget and initiated through the Office of Co-operatives.

Common equity rental co-operatives

The common equity rental co-operative program was launched in May this year.

- Basic agreement has been reached between the Minister for Housing, the Hon. F. Wilkes, M.P., and the program managers, the CERC Sub-Committee, over the guidelines for setting up and managing common equity rental co-operatives. The Sub-Committee is serviced by two workers funded through the Federal Government's Local Government and Community Housing Program.
- Four groups have been selected for funding as common equity co-operatives in this financial year.
- Education and training, and accounting, legal and building advice are being delivered to the selected co-operatives through an education officer and the Central Region Housing Resource Co-operative which will eventually operate on a fee for service basis.

- The Sub-Committee has launched a public, unlisted company, the Common Equity Housing Finance Co. Ltd., whose role will be to raise private sector finance, mix this in with \$2.2 million of Federal Government funds and on lend to the selected co-operatives in the form of low start, indexed loans.

The Sub-Committee with the support of the Minister for Housing has approached the Treasurer requesting that government guarantees be extended to cover all loans raised by the Common Equity Housing Finance Company. Such guarantees would not only provide a lender with security of placement but also may encourage the provision of wholesale loans at a lower interest rate. The Ministry of Housing and those with appropriate technical skills are represented on the finance company's board of directors.

As the finance company is now in operation, MACC urges the Treasurer to make a decision on the extension of guarantees as quickly as possible.

RECOMMENDATION 61

The Treasurer should extend government guarantees to cover loans raised by the Common Equity Housing Finance Co. Ltd. as soon as possible.

Common equity co-operatives are non profit organisations offering no capital gains to members, who will simply pay rent to the co-operative.

Under current legislative provisions, common equity co-operatives cannot gain exemption from Federal and State taxes and duties, and are also subject to paying stamp tax twice due to a legislative anomaly. Again, the CERC Sub-Committee has written to the Treasurer requesting exemption from land tax, gift duty and stamp duty for common equity co-operatives as a contribution towards keeping down the costs of this non profit, community housing sector.

MACC supports this proposal—particularly the removal of a double stamp tax. Exemption from gift duty would, for instance, provide an incentive for people to gift their properties to the CERC program.

RECOMMENDATION 62

The Treasurer should agree to the removal of land tax, gift duty and stamp duty on property purchased for common equity rental co-operatives.

SPECIFIC SECTOR REQUIREMENTS

The following recommendations have been developed in consultation with the sectors themselves.

They provide a list of priorities for action as determined by representatives within each sector. MACC envisages that these specific sector requirements could act as guidelines for use by the Government, Victorian Co-operatives Council and the Office of Co-operatives once the proposed infrastructure for the co-operative movement in Victoria is in place.

RECOMMENDATION 63

The specific sector requirements as set down in this section of the MACC report should be used as guidelines for sector development by the Government, Victorian Co-operatives Council and the Office of Co-operatives.

Aboriginal co-operative sector

The Aboriginal community in Victoria is working towards a range of co-operative innovations, including proposals for regional councils.

Legislation has been put forward covering land rights, heritage and compensation.

Issues for Aboriginal co-operative development are:

- (a) Social
 - Reinforce clan and traditional structure
 - Provide supportive environment for the individual and the community
 - Develop grass roots processes and structures controlled by Aborigines
- (b) Environmental
 - Promote Aboriginal communities in the rural sector
 - Re-establish Aboriginal lands using crown reserves
 - Emphasise traditional Aboriginal spiritual associations with the earth
- (c) Financial
 - Compensation
 - Use of co-operative finance to achieve aims
 - Aboriginal development corporation
 - Develop communities on a self-determining/self-sustaining basis, especially "do-it-yourself" housing
 - Develop enterprises appropriate to the Aboriginal community

- (d) Technical
 - Develop skills training programs for Aborigines by Aborigines
 - Use cost effective methods of community development
 - Education should be “hands on” and appropriate to need and culturally relevant

Child-care co-operative sector

- (a) Funding to establish a sector association.
- (b) Management training and appropriate funding.
- (c) Improved linkages between child-care co-operatives.
- (d) Promotion of the benefits of parent-controlled, child-care facilities.

Community settlement co-operative sector

- (a) Funding to establish a sector association.
- (b) Funding to develop an education program.
- (c) Introduction of multiple-occupancy as rural land use policy. If necessary, restrict its use to registered community settlement co-operatives.
- (d) Performance-oriented guidelines for bona-fide rural owner builders.
- (e) Removal of land tax discrimination.
- (f) Retain current exemption from stamp duty under the Stamps Act on conveyancing of rural property acquired by any registered community settlement co-operative.
- (g) Provide recognition from government and other co-operative sectors and establish appropriate links.

Credit co-operative sector

- (a) Inconsistencies and problems with other legislation, in particular, the Credit Act.
- (b) Credit co-operatives suffer from different government departments pursuing contradictory policies.
- (c) Banks and other financial institutions are not so constrained, thus putting further pressure on the credit co-operative sector.
- (d) The sector is usually ignored by the Government when looking at economic initiatives, leaving them only a reactive role.
- (e) The need for strong, soundly based credit co-operatives to be recognised by government as suitable repositories for trustee investments.

Equity housing co-operative sector

The Federation of Housing Societies of Victoria perceives several requirements as central to the continued growth of co-operative housing societies.

- (a) A need to realise increased fund-raising potentials is fundamental to sector growth. The Federation's level of service could be considerably enhanced by broadened government guarantees. However, the resultant increase in contingent liabilities is likely to restrict any such expansion.
- (b) A further means to improve sector capacity is the application of government pools of funds in the secondary mortgage market and the creation of statutory facilities to give co-operatives the power to raise funds.
- (c) Central, wholesale loan facilities are identified as essential to the long term development of the sector and the co-operative movement generally.

Food co-operative sector

- (a) Funding for a sector association.
- (b) Government funding of \$122,000 in the first year for the establishment of a development centre to provide education, training and support facilities for the sector.
- (c) Government funding of \$287,000 (1985 figure) for the establishment of a centralised purchasing system, specifically through the development of a co-operative warehouse.
- (d) Access to appropriate and adequate finance facilities on a long term basis, these being specifically designed to meet the needs of the sector.
- (e) Recognition from government and other co-operative sectors and development of appropriate links.

Producer co-operative sector

- (a) Amendment of definition of "co-operative" in the Companies (Victoria) Code.
- (b) Recognition of restrictions which inhibit economic incentives; e.g. prohibition of public share raising.
- (c) Provision of taxation concessions.
- (d) Lower minimum membership (i.e. three) to assist the formation of farm production co-operatives.
- (e) A system of democratic membership that is not a disincentive to raising equity share capital; e.g. a limited, proportional voting system.
- (f) The ability for a co-operative to repurchase and hold up to 5% of members' shares.
- (g) Progress towards a co-operatively structured rural credit system.
- (h) Investigation of the need to establish a sector association.

Rental housing co-operative sector

- (a) Government guarantees for loans raised by the Common Equity Housing Finance Company Ltd.
- (b) Exemption from State and Federal taxes and duties for common equity rental co-operatives and the CERC program in general.
- (c) Government support for the issuing of community housing capital indexed bonds as a means of raising finance for common equity rental co-operatives.
- (d) Continued Ministry of Housing funding of the leasing, rental housing co-operatives program.
- (e) Continued government funding of the CERC program.
- (f) Funding to establish a sector association.
- (g) Funding to develop an education program for both leasing and common equity rental housing co-operatives.
- (h) Government support for a national conference on common equity rental co-operatives.

Trading co-operative sector

- (a) Establish a specialist research group, based on the Mondragon structure, to study and report on the development of a central credit co-operative to act as a financial resource for trading co-operatives, including credit co-operatives and friendly societies.
- (b) Make provision for trading co-operatives to operate subsidiary organisation(s) within the framework and under the control of the co-operative.
- (c) Funding to establish a sector association.
- (d) Development of education and training programs for directors, staff and members.

Worker co-operative sector

- (a) A clear definition and prescription for a worker co-operative as a type of co-operative in a reformed Co-operatives Act.
- (b) The Department of Labour to provide \$750,000 over three years for the establishment of a worker co-operative association.
- (c) A Worker Co-operative Development Agency to be established with government support under the auspices of the proposed worker co-operative association. \$1.4 million should be granted immediately to the agency to ensure the continuation of previous levels of support and there should be an allocation of \$5 million in the next budget to the agency.
- (d) A working party should be set up consisting of worker co-operatives and credit co-operatives to examine means of enabling credit co-operatives to provide finance for worker co-operatives.

- (e) The Government should adopt a policy of support for the conversion and transformation of companies into worker co-operatives with government departments co-operating with the worker co-operative association and development agency, ensuring that the co-operative is promoted.
- (f) The Department of Labour should maintain funding of the programs at Preston College of TAFE in the short term, with these functions being transferred across to the association after its establishment. \$100,000 should be granted for this purpose.
- (g) A working party should be established between worker co-operatives and the Department of Property and Services to investigate the development of a scheme to allow worker co-operatives to take on government contracts.
- (h) Discussions should be initiated between worker co-operatives and local government departments at the national and state level as well as local government authorities aimed at stimulating worker co-operative development at the local level.